

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)	
CONSUMERS ENERGY COMPANY and DTE)	
ELECTRIC COMPANY requesting that the)	Case No. U-18195
Commission grant accounting approval of)	
depreciation practices for the Ludington Pumped)	
Storage Plant.)	
_____)	

At the July 12, 2017 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Sally A. Talberg, Chairman
Hon. Norman J. Saari, Commissioner
Hon. Rachael A. Eubanks, Commissioner

ORDER APPROVING SETTLEMENT AGREEMENT

On November 10, 2016, Consumers Energy Company (Consumers) and DTE Electric Company (DTE) filed an application, with supporting testimony and exhibits, requesting approval of revised depreciation rates for the Ludington Pumped Storage Plant (LPSP).

A prehearing conference was held on January 12, 2017, before Administrative Law Judge Mark D. Eyster (ALJ). Consumers, DTE, and the Commission Staff (Staff) participated in the proceedings. The ALJ granted intervenor status to the Association of Businesses Advocating Tariff Equity on February 22, 2017. Subsequently, the parties submitted a settlement agreement resolving all issues in the case.

According to the terms of the settlement agreement, attached as Exhibit A, the parties recommend that the Commission approve the LPSP depreciation rates for each utility, as set

forth on Attachment 1 to the settlement agreement. According to the parties, when applied to the 2015 depreciable plant balances, the LPSP depreciation rates result in an approximate \$2.2 million increase in annual depreciation expense for Consumers and an approximate \$2.0 million increase in annual depreciation expense for DTE. The parties agree that the new depreciation rates will take effect on the effective date of final rates in each company's next respective general rate case following Case No. U-18322 for Consumers, and Case No. U-18255 for DTE. In addition, the parties agree that Consumers and DTE shall file the next depreciation case for LPSP no later than three years from the date of the final order approving the settlement agreement.

The parties agree that in the next depreciation case for LPSP, Consumers and DTE shall file a newly-created depreciation study that includes use of LPSP's actual interim retirement activity to calculate rates. The parties also agree that Consumers and DTE may also choose to include the interim retirement rates calculated for Consumers' other hydroelectric facilities. The parties further agree that the next LPSP depreciation case will include a statement providing the book value of the land at the LPSP site, and will include a newly-prepared demolition/decommissioning cost study conforming to the requirements indicated in the settlement agreement.

The Commission finds that the settlement agreement is reasonable and in the public interest, and should be approved.

THEREFORE IT IS ORDERED that:

A. The settlement agreement, attached as Exhibit A, is approved.

B. The revised depreciation rates shown on Attachment 1 to the settlement agreement shall take effect on the effective date of final rates in each company's next respective general

rate case following the conclusion of Case No. U-18322 for Consumers Energy Company, and Case No. U-18255 for DTE Electric Company.

C. Consumers Energy Company and DTE Electric Company shall file the next depreciation case for the Ludington Pumped Storage Plant no later than three years from the date of this order approving the settlement agreement.

D. In the next depreciation case for the Ludington Pumped Storage Plant, Consumers Energy Company and DTE Electric Company shall file a newly-created depreciation study that includes use of the Ludington Pumped Storage Plant's actual interim retirement activity to calculate rates, and the companies may also choose to include the interim retirement rates calculated for Consumers Energy Company's other hydroelectric facilities.

E. In the next depreciation case for the Ludington Pumped Storage Plant, Consumers Energy Company and DTE Electric Company shall include a statement providing the book value of the land at the Ludington Pumped Storage Plant site and shall include a newly-prepared demolition/decommissioning cost study conforming to the requirements indicated in the settlement agreement.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so by the filing of a claim of appeal in the Michigan Court of Appeals within 30 days of the issuance of this order, under MCL 462.26. To comply with the Michigan Rules of Court's requirement to notify the Commission of an appeal, appellants shall send required notices to both the Commission's Executive Secretary and to the Commission's Legal Counsel. Electronic notifications should be sent to the Executive Secretary at mpscedockets@michigan.gov and to the Michigan Department of the Attorney General – Public Service Division at pungpl@michigan.gov. In lieu of electronic submissions, paper copies of such notifications may be sent to the Executive Secretary and the Attorney General – Public Service Division at 7109 W. Saginaw Hwy., Lansing, MI 48917.

MICHIGAN PUBLIC SERVICE COMMISSION

Sally A. Talberg, Chairman

Norman J. Saari, Commissioner

Rachael A. Eubanks, Commissioner

By its action of July 12, 2017.

Kavita Kale, Executive Secretary

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)	
CONSUMERS ENERGY COMPANY)	
And DTE ELECTRIC COMPANY)	Case No. U-18195
Requesting that the Commission Grant)	
Accounting Approval of Depreciation Practices)	
for the Ludington Pumped Storage Plant)	
_____)	

SETTLEMENT AGREEMENT

Pursuant to MCL 24.278 and Rule 431 of the Michigan Administrative Hearing System’s Rules of Practice and Procedure before the Michigan Public Service Commission (“MPSC” or “Commission”), Mich Admin Code, R 792.10431, the undersigned parties agree as follows:

WHEREAS, on November 10, 2016 Consumers Energy Company (“Consumers Energy”) and DTE Electric Company (“DTE”) filed an Application requesting approval of revised depreciation rates for the Ludington Pumped Storage Plant. Consumers Energy and DTE filed testimony and exhibits in support of their joint positions concurrently with their Application.

WHEREAS, the initial prehearing conference in this proceeding was held on January 12, 2017 before Administrative Law Judge Mark D. Eyster. The parties to the case are Consumers Energy, DTE, the Commission Staff, and the Association of Businesses Advocating Tariff Equity (“ABATE”).¹

¹ ABATE was granted late intervention by stipulation of the parties on February 22, 2017.

NOW THEREFORE, for purposes of settlement of Case No. U-18195, the undersigned parties agree as follows:

1. The parties agree that the Commission should approve the depreciation rates shown on Attachment 1 to this Settlement Agreement. The parties agree that, in accordance with the depreciation rates identified on Attachment 1 to this Settlement Agreement, the depreciation rates will result in an increase in the annual Ludington Pumped Storage Plant depreciation expense allowance of approximately \$2.2 million for Consumers Energy and approximately \$2.0 million for DTE based on December 31, 2015 depreciable plant balances. The parties further agree that the new annual depreciation rates agreed to in this Settlement Agreement shall take effect for each Company based on the effective date of final rates in each Company's next respective general rate case following Case No. U-18322 for Consumers Energy and Case No. U-18255 for DTE. Each Company shall retain and continue their present depreciation accrual rates until its respective effective date described in the preceding sentence.

2. The parties agree that Consumers Energy and DTE shall file the next depreciation case for the Ludington Pumped Storage Plant no later than three years from the date of a final order approving this Settlement Agreement.

3. The parties agree that, in their next depreciation case for the Ludington Pumped Storage Plant, Consumers Energy and DTE shall file a newly-created depreciation study that includes use of the Ludington Facility's actual interim retirement activity to calculate rates. The Companies, or their consultant, can also choose to include the interim retirement rates calculated for Consumers Energy's other hydro-electric facilities. The parties further agree that the next depreciation case for the Ludington Pumped Storage Plant will include a statement providing the

book value of the land at the site. The filing will also include a newly-prepared demolition/decommissioning cost study conforming to the following requirements:

- a. The study will not be an update of an old study from this case or previous cases;
- b. The new demolition/decommissioning cost study should clearly identify, define, justify, and support all underlying cost assumptions;
- c. Consumers Energy and DTE can choose to include cost estimates for all three removal options detailed in the Ludington Decommissioning Study completed by Kleinschmidt Associates on June 18, 2004 ("Kleinschmidt Study"), as discussed in this case; however, at a minimum, the new demolition/decommissioning cost study will include one option that sets forth a decommissioning scenario based on the minimal cost requirements to safely decommission the plant. It is suggested that Consumers Energy and DTE, or their consultant, start with the option one scenario presented in the Kleinschmidt Study (permanent non-power operation) and include minimal requirements necessary to prevent ponding, scouring, and erosion;
- d. The new demolition/decommissioning cost study should still include an estimate of costs necessary to mitigate shoreline changes; however, a specific study should be conducted to evaluate alternative options for the shoreline restoration that include leaving structures in place or filling rather than removal; and
- e. The new cost study should be in current (at the time of filing the study) dollars/costs and should not have contingency factors or any other cost adders such as weather delay or productivity multipliers included throughout. If the new study does include such items, they are to be included at only one point and be reasonably justified and well supported.

4. This settlement is entered into for the sole and express purpose of reaching a compromise among the parties. All offers of settlement and discussions relating to this settlement are, and shall be considered, privileged under MRE 408. If the Commission approves this Settlement Agreement without modification, neither the parties to this Settlement Agreement nor the Commission shall make any reference to, or use, this Settlement Agreement or the order approving it as a reason, authority, rationale, or example for taking any action or position or making any subsequent decision in any other case or proceeding; provided, however, such references may be made to enforce or implement the provisions of this Settlement Agreement and the order approving it.

5. This Settlement Agreement is based on the facts and circumstances of this case and is intended for the final disposition of Case No. U-18195. So long as the Commission approves this Settlement Agreement without any modification, the parties agree not to appeal, challenge, or otherwise contest the Commission order approving this Settlement Agreement. The parties agree and understand that this Settlement Agreement does not limit any party's right to take new and/or different positions on similar issues in other administrative proceedings, or appeals related thereto.

6. This Settlement Agreement is not severable. Each provision of the Settlement Agreement is dependent upon all other provisions of this Settlement Agreement. Failure to comply with any provision of this Settlement Agreement constitutes failure to comply with the entire Settlement Agreement. If the Commission rejects or modifies this Settlement Agreement or any provision of the Settlement Agreement, this Settlement Agreement shall be deemed to be withdrawn, shall not constitute any part of the record in this proceeding or be used for any other purpose, and shall be without prejudice to the pre-negotiation positions of the parties.


7. The parties agree that approval of this Settlement Agreement by the Commission would be reasonable and in the public interest.

8. The parties agree to waive Section 81 of the Administrative Procedures Act of 1969 (MCL 24.281), as it applies to the issues resolved in this Settlement Agreement, if the Commission approves this Settlement Agreement without modification.

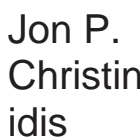
9. This Settlement Agreement may be executed in multiple counterparts.

WHEREFORE, the undersigned parties respectfully request the Michigan Public Service Commission to approve this Settlement Agreement on an expeditious basis and to make it effective in accordance with its terms by final order.

MICHIGAN PUBLIC SERVICE
COMMISSION STAFF


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ASSOCIATION OF BUSINESSES
ADVOCATING TARIFF EQUITY

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Attachment 1

CONSUMERS ENERGY COMPANY

Ludington Pumped Storage Facility
Comparison of Depreciation Rates
as of December 31, 2015

(1) Acct. No.	(2) Description	(3) Plant Balance	(4) Existing Rate	(5) Existing Expense	(6) Settlement Rate	(7) Settlement Expense	(8) Increase or (Decrease)
<u>Hydro Production Plant</u>							
331.0	Structures & Improvements	29,820,112	3.33%	993,010	4.32%	1,288,229	295,219
332.0	Reservoirs, Dams, Waterways	98,789,142	3.04%	3,003,190	3.07%	3,032,827	29,637
333.0	Waterwheels, Turbines, Gen	87,441,212	3.75%	3,279,045	5.20%	4,546,943	1,267,898
334.0	Accessory Electric Equip	16,576,719	3.13%	518,851	5.01%	830,494	311,642
335.0	Misc. Power Plant Equip	8,436,079	4.62%	389,747	7.74%	652,952	263,206
336.0	Roads, Railroads & Bridges	1,544,624	3.09%	47,729	2.90%	44,794	(2,935)
	Total	242,607,887	3.39%	8,231,572	4.29%	10,396,239	2,164,667

DTE ELECTRIC COMPANY

Ludington Pumped Storage Facility
Comparison of Depreciation Rates
as of December 31, 2015

(1) Acct. No.	(2) Description	(3) Plant Balance	(4) Existing Rate	(5) Existing Expense	(6) Settlement Rate	(7) Settlement Expense	(8) Increase or (Decrease)
<u>Hydro Production Plant</u>							
331.0	Structures & Improvements	33,204,561	3.03%	1,006,098	3.98%	1,321,542	315,443
332.0	Reservoirs, Dams, Waterways	116,893,224	2.81%	3,284,700	2.78%	3,249,632	(35,068)
333.0	Waterwheels, Turbines, Gen	103,104,389	3.48%	3,588,033	4.78%	4,928,390	1,340,357
334.0	Accessory Electric Equip	12,660,381	3.30%	417,793	4.33%	548,195	130,402
335.0	Misc. Power Plant Equip	9,264,945	4.78%	442,864	7.30%	676,341	233,477
336.0	Roads, Railroads & Bridges	1,862,785	2.79%	51,972	2.66%	49,550	(2,422)
	Total	276,990,285	3.17%	8,791,459	3.89%	10,773,648	1,982,189